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TO: Education Task Force Members

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RE: Productivity Valuation of Agricultural Land

DATE: June 16, 2006

The Department was asked to provide information to the Education Task Force concerning use of productivity value to determine the value of agricultural land for property tax purposes.

The productivity value method is established in SDCL 10-6-33.24 thru 10-6-33.27. The Department of Revenue has also adopted administrative rules 64:04:01:29 thru 64:04:01:31.01 for implementation of these statutes. The statutes are attached for your information. The statutes have been included for your information.

The productivity method became law by HB 1009 from the 2003 Legislative Session and was further amended by SB 2 from the 2005 Legislative Session.

The productivity method is also known as the agricultural income value. This is determined by using capitalized actual annual cash rent. The actual annual cash rent is the actual annual cash rent, excluding the actual per acre tax on agricultural land, determined through an analysis of actual arm's length rental agreements collected within the county in the year prior to the year for which the income value is being determined. The annual cash rent shall be capitalized at seven and three-fourths percent.

This method has two parts which, if changed, make a significant impact on the value. First is the capitalization rate. Simply put, the higher the capitalization rate, the lower the final value will be. The capitalization rate is set by statute at 7.75%.

The other significant part of this formula is the rental rate. Senate Bill 2 from the 2005 legislative session changed the statute from using a one year crop cash rent to using the crop cash rent on cropland and the non-crop cash rent use on non-cropland. And it also changed the rent from a one year rent to a three year average.

Attached is a comparison of the values for 2006 using the productivity value and the projected assessed dollar per acre.

Also for your information, below is the web site for *South Dakota Agricultural Land Market Trends 1991-2005* as published by the South Dakota State University, Agricultural Experiment Station, U. S. Department of Agriculture.

<http://agbiopubs.sdstate.edu/articles/c270.pdf>

10-6-33.19. Less than fifteen sales--Director of equalization authorized to use previous year's sales or sales in adjoining counties. If there are less than fifteen sales of agricultural land within a county, the director of equalization shall use sales of agricultural land within the county from previous years or sales of comparable agricultural land within adjoining counties.

10-6-33.24. Assessment of agricultural land based on agricultural income value--Conditions. Notwithstanding the provisions of chapter 10-6, agricultural land may be assessed based on its agricultural income value if there are less than fifteen arms-length transactions of agricultural land during the three preceding assessment years. The agricultural income value of agricultural land shall be determined on the basis of the capitalized annual cash rent of the agricultural land. The capitalized annual cash rent shall be based on data collected and analyzed pursuant to § 10-6-33.25. For the purposes of this section, arms-length transactions do not include any agricultural land sales subject to the provisions of § 10-6-33.14, 10-6-33.20, or 10-6-74.

Source: SL 2003, ch 50, § 1.

10-6-33.25. Determination of agricultural income value. For the purposes of § 10-6-33.24, the agricultural income value shall be determined using capitalized annual cash rent. The annual cash rent is the annual cash rent, excluding the per acre tax on agricultural land, determined through an analysis of arms-length rental agreements collected within the county in the three years prior to the year for which the agricultural income value is being determined. The agricultural income value of cropland shall be based on average rents over a three-year period for cropland under natural conditions. The agricultural income value of noncropland shall be based on average rents over a three-year period for noncropland under natural conditions. However, no arms-length rental agreements for irrigated land may be used to determine the annual cash rent pursuant to this section. The annual cash rent shall be capitalized at seven and three-fourths percent.

The secretary of revenue and regulation may enter into a contract for the collection of cash rent information by county. Cash rent information shall be adjusted by soil survey statistics, if available, and pursuant to § 10-6-33.26.

Source: SL 2003, ch 50, § 2; SL 2003, ch 272, § 82; SL 2005, ch 58, § 1.

10-6-33.26. Director of equalization to determine assessed value of agricultural land--Value adjustments. The director of equalization shall annually determine the assessed value of agricultural land as defined by § 10-6-31.3. Any agricultural land assessed based on its agricultural income value pursuant to § 10-6-33.24 and 10-6-33.25 may be value adjusted by the following factors:

- (1) The capacity of the land to produce agricultural products as defined in § 10-6-33.2; and
- (2) The location, size, soil survey statistics, terrain, and topographical condition of the land including the climate, accessibility, and surface obstructions which can be documented.

Source: SL 2005, ch 58, § 2.

10-6-33.27. Separate rent value per acre for identified region of county--Deviation from median rent value. If the median rent value per acre in an identifiable region within a county deviates by more than ten percent from the county median rent value per acre, the county director of equalization may establish a separate rent value per acre for the land defined by the director of equalization within that identifiable region.

Source: SL 2005, ch 58, § 3.